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## **Business-startups in Ukraine: current state and development prospects**

M. Dorosh-Kizym, M. Dorosh

*Stepan Gzhytskyi National University of Veterinary Medicine and Biotechnologies Lviv, Lviv, Ukraine*

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Stepan Gzhytskyi National University of Veterinary Medicine and Biotechnologies Lviv, Pekarska Str., 50, Lviv, 79010, Ukraine.  
Tel.: + 38-063-81-456-55  
E-mail: mim.dorosh@gmail.com

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Due to the war in Ukraine, all sectors of the economy suffered in one way or another. At the same time, the IT industry remains the most stable sector, which brings a large share of taxes to the budget and thus supports the economy of our country. It is this industry that receives large orders from foreign customers, attracts investors, including large corporations. Any business that is barely born or exists only at the level of an idea and the first organizational steps, provided the necessary expert and financial support, can very soon show dizzying results. Especially if it is an innovative project in the field of IT technologies, marketing, telecommunications, electronic commerce, biotechnology. This is where business incubators come from, which provide support (office, consulting, investment) to startups at all stages from development to commercialization of an idea in exchange for a share in future profits. Perfection has no limits. Innovators take pride in implementing complex solutions, they like to overcome difficulties and use advanced technologies. But, every new project has its price. After all, every strategic decision must be well justified from the business side. Otherwise, it can lead to unplanned costs and release delays. Over the past decade, the Ukrainian startup ecosystem has grown significantly and “grown up”, which has enabled Ukraine to be stable in the technological field in the face of today’s challenges. E-commerce, social media, 3D printing, mobile applications – it’s no secret that the wealthiest investors willingly invest in these industries. But there are less obvious areas that attract more and more capital every year. Despite the large-scale military actions in Ukraine, European investors are still interested in Ukrainian startups. The secret lies in the mentality of Ukrainians: hard work, dedication and the ability to concentrate under any circumstances. The war changed not only the agenda, but also perspectives. It is the investments that drive Ukraine’s recovery and development. Today, the Ministry of Digital Transformation is busy attracting investments for the development of the startup ecosystem, digitalizing Ukraine by introducing innovations on the Diya platform and legalizing the crypto sector. All this is necessary to accelerate the economic recovery of the country already now, without waiting for victory in the war.

**Keywords:** startups, startup implementation stage, an innovative idea, the startup investment, Global Competitiveness Index, enterprises, business incubators, accelerators, crowdsourcing, «Death Valley», Ukrainian State Fund for Startups, business angels, venture business, networking.

### **Introduction**

Nowadays it is global economic development is exclusively transformational in nature. They are gradually losing their relevance all traditional economic principles, approaches and practices. Qualitatively new economic trends are emerging, innovative and creative economic ones are formed paradigms, new theoretical and practical approaches to conducting economic activity are emerging, that meet today's challenges.

One of direction of such global transformations is becoming the formation and development of startups, which

is characterized by an innovative and creative component; multifactorial, progressive, flexible and dynamic trajectory of development, interdisciplinary approaches and principles, interdisciplinary aspects of influence.

Startups are new for the Ukrainian economy format of economic relations, which has a significant potential for development. Given the experience of foreign countries that are leaders in the markets of startup projects, Ukraine can adapt practices formation and development of such projects, as well as make your theoretical and practical contribution to global startup ecosystem. Therefore research there are quite a few start-up activities in the form

of theoretical conceptualization and practical orientation relevant ([Halakhova et al., 2021](#)).

The relevance of this research is reflected in numerous scientific works of Ukrainian and foreign scientists. In particular, development issues the startup market, innovative technologies, prospects and possibilities of their application, are devoted to the publication such scientists as R. Fedorov ([Fedorov, 2021](#)), N. Kulyk, ([Kulyk, 2020](#)). I. Hnatenko, V. Zhaldak, L. Lysenko, O. Maslak, I. Paderin, N. Skrypnyk and others. The importance of implementing the latest management tools solutions, innovations in entrepreneurial activity are highlighted in the works of O. Polishchuk, M. Kulynch, L. Fedulov and other famous researchers.

*The formulation of the purpose of the article* consists in the study and development of such an economic category as “startup”, as well as in the generalization of modern theoretical and practical transformational aspects of their activities.

### **Material and methods of research**

In the process of researching the evolution and development of startups both in Ukraine and in the world as a whole, the following methods were used: for processing the volume of statistical and empirical data – economic-statistical methods; for in-depth study of individual elements of the studied phenomenon – monographic methods; to illustrate certain researched phenomena, processes and regularities – graphic methods; for a detailed study of the studied phenomenon by analyzing its structure, individual features, properties, relationships – methods of analysis and synthesis and comparisons; to study the experience of the researched problems in different countries of the world and to establish separate positive elements in the given research – a method of methodological and historical approach in economic researches.

### **Results and its discussion**

Today we live in the world of the latest technologies. That is why recently the word startup can be heard walking down the street, watching news on TV or reading a newspaper. This topic is becoming more and more relevant in Ukraine as well.

This is a relatively new concept for our country, but at the same time, Ukrainians are increasingly entering the global market of innovative technologies with successful projects.

It is not easy to successfully implement a project, no matter how economically profitable and attractive it may seem. It is worth investigating all the mistakes that lead to bankruptcy, even seemingly win-win startups, in particular, in the Internet business, and what should be paid attention to at the investment stage of the project.

It is very difficult to assess the success of a startup in the pre-investment and investment periods. Sometimes a project that brings a loss of \$5,000 at the initial stage will eventually pay off faster than one that immediately makes a profit of \$500. Therefore, a developed business plan, even if it takes into account many development scenarios,

is far from a guarantee of successful investments ([Business accelerator, 2022](#)).

In order to investigate this issue in more detail, first of all, it is necessary to analyze the actual approaches to defining the term «startup». So, Start-up is a company with a short history of operational activity. That is, it is a newly created company that is in the process of development or market research. The main difference between a startup and a regular business is that a startup has an innovative basis (new technologies and products), it is a business that opens for the first time and has no analogues in the country or the world. Most startups require large investments and have high profitability ([Skopyk & Nedoshitko, 2021](#)).

The most apt interpretation of the startup was given by the well-known American entrepreneur Steven Blank. According to his version, a startup is a temporary form of organization that must find and implement a business idea. This is necessarily a new and unique project that is rapidly developing and making a profit.

It is implied that this company has some business idea that needs development and promotion, but its creators are still busy with market research and finding funds for its implementation.

Sometimes startups are companies that are going to offer innovative products and services to consumers, but are currently in the process of finding suitable business technologies and financial support. The future of such companies looks uncertain.

Any company, regardless of its field of activity, can be considered a startup. However, in some circles startups are called only initiatives in the field of high technologies, Internet business and “related institutions”.

An idea is considered a startup if:

- innovativeness – novelty distinguishes this business from traditional models;
- investments – mostly external funds are involved in this;
- minimum time for development – the idea is implemented in a limited time, on average up to 6 months;
- a team of like-minded people – it is almost impossible to raise the project independently.

The concept of “startup” arose in the 30s of the last century in America. It was then that two students – Hewlett and Packard – founded a tiny enterprise and called it “start up”. It turned out that the company has a great future – these days it is known under the name Hewlett-Packard, or HP ([Business accelerator, 2022](#)).

When there is a conversation about startups, our compatriots usually imagine Internet resources that stand out among their kind. The most famous and successful startups are YouTube video file hosting and the “people’s encyclopedia” – Wikipedia.

In other countries, the term “startup” is interpreted a little differently. The most obvious examples of startups are IT corporations “with a world name”: Microsoft, Apple, Google. The history of these giants really began with small things – namely, with a small group of like-minded people who are burning with the desire to bring their ideas to life.

Also, it is necessary to distinguish between the economic terms: “startup” and “entrepreneur”. An entrepreneur creates as a traditional business as well as a startup,

but the priority of his entrepreneurial activity is business. A starter is this a person who, to start his business, deals with attracting investments to realize his dreams and ideas, directs efforts to this end. People of all ages and professions launch startups. An important point in development of a start-up plan is to determine the country in which it will work.

A startup is a fairly vague concept. Therefore, its characteristic features recognized by many entrepreneurs should be highlighted (Palyjchuk & Fedorov, 2021).

*Course for a new product.* Most often, the essence of a startup is to promote innovative ideas or improve old ones. Thanks to this, startups can compete even with the most powerful corporations, which in most cases do not burden themselves with introducing innovations and continue to offer those goods and services that have long proven themselves. That is why any startup is a leap into the unknown.

*An interesting business idea.* It's no secret that without an idea there would be no business at all. However, in a startup, the idea has a special value. If it promises prospects, it can be very, very expensive. For comparison, the Internet is full of standard ideas for starting your own business, and they are completely free. Sometimes they even include business plans.

*The driving force is the youth.* Many famous and successful startups are the brainchild of yesterday's students. According to statistics, the average age of a startup is 25 years old. That is why new beginnings are sometimes called «garage business» with a hint of disdain.

*The main credo is risk.* As a rule, startup initiators put their whole soul into their idea. To realize it, a person is ready to take big risks. The startup does not care that the price of victory may be too high: if he is interested in success, he will do everything possible to achieve it.

*The basis is a common idea, not profit.* It is difficult to develop any initiative alone. Therefore, as a rule, a whole team led by an ideological leader participates in the creation of a startup. Each of the members of this team performs certain functions: one can develop a promising idea, another – plan a business based on this idea, the third – look for suppliers, customers, sources of financing. It is worth noting that they perfectly understand that they will not be able to achieve everything at once. But startups are interested in their work and believe in the possibility of making a profit.

*Financing.* Perhaps the lack of funds to bring an idea to life is the main characteristic of a startup, because startups are created by enthusiastic young people who have a huge amount of energy, but no money. That is why startups need investors – people who will be interested in fresh ideas and help implement them by investing their money in these projects. Last but not least, the investor is attracted by profit. Third-party funding is actually a prerequisite for startups. After all, large-scale development without the involvement of large funds should not be expected. Finding investors is a common practice, and the contract between the startup owner and the investor guarantees the fulfillment of obligations between the parties.

The following types of startups are distinguished: goods or services for sale – projects are created from the very beginning for sales (software, platforms, etc.); scalable – consumer and business applications that increase the flow of customers with investment; branched – part of a certain business, do not appear from scratch; social – combines charitable and non-profit goals.

There are six basic steps in creating an innovative business. The distribution is approximate and depends mainly on the niche that the entrepreneur is going to occupy (table 1).

**Table 1**  
The main stages of development of a startup project

Stage	Realization	Features	Financing
Pre-seed or the birth of an idea	A clear idea and understanding of the needs of the target audience	There is no implementation plan yet	Minimum involvement of own funds
Seed or formation	Study of the market, demand, minimal step-by-step plan	Mostly analytical work and risk calculations	Attracting the first investors and crowdfunding
Model	Creation of the first model or its prototype	The model works only with basic functions in theoretically ideal market conditions	
Alpha version	The project is tested by a small number of people to find defects	The first promotion of the product on the market	Creation of venture funds, execution of contracts with investors
Closed beta version	The project is already working and attracting the attention of the first users	Conclusion of long-term contracts with partners	Distribution of shares between investors and founders
Open beta version	The number of users is constantly increasing, large-scale promotion	First sales, agreements with customers as needed	Full self-sufficiency and profit

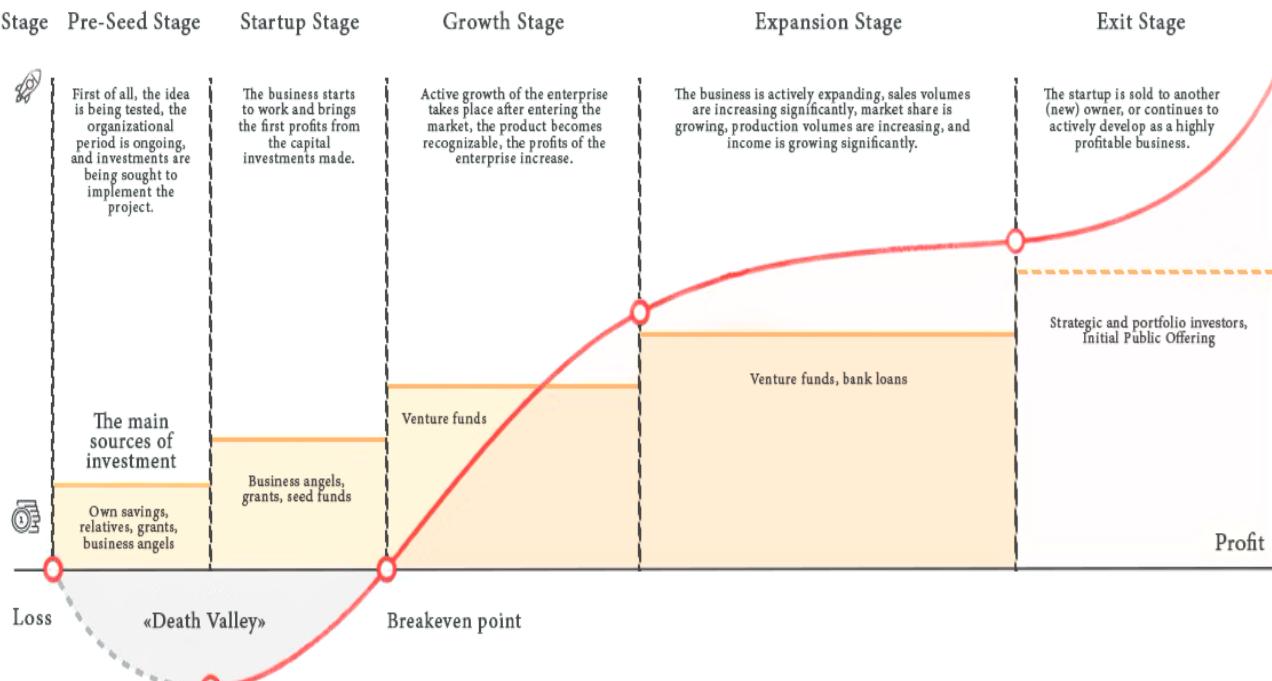
Source: based on (What is the startup ecosystem of Ukraine..., 2022)

In global practice, it is customary to classify startups according to several characteristics – for example, according to the features of the products and the sales market. The following types of startups are distinguished:

“Successful Copies”. This group includes numerous domestic projects, which to some extent are clones of

foreign ones. First of all, these are social networks. As it turned out, such copies are very promising.

“Aggressive aliens”. This group unites startups focused on capturing some segment of the market and expelling competing companies from it. The introduction of the product to the market can be realized due to its exceptional price advantage.



**Fig. 1. Life cycle of startup development**

Source: based on ([Development of Ukrainian innovations..., 2022](#))

“Dark horses”. This is what you can call startups whose prospects are not clear considering their innovations. On the one hand, the creators of these startups take a big risk by trying to promote them, and on the other hand, if they succeed, they are guaranteed a huge profit.

We offer a detailed review and description of the startup life cycle curve (Fig. 1):

1. Sowing stage, or Pre-Seed stage. At this stage, there is a search for an idea and the development of technical methods of its implementation. The initiative group makes a market analysis, writes a business plan, formulates technical tasks. Next comes: creating a product prototype, testing its versions, studying demand and finding sources of funding. If it is not possible to find an investor, the project “slows down”. Unfortunately, this is exactly what happens with most startups.

2. Startup Stage. So, the investor is found: the product can be released to the market. Having found itself in market conditions, the product must prove its superiority over analogues. But at this stage, it is not so easy to bypass competitors. Startup creators should show persistence, demonstrate creative thinking and business acumen. It is now that the project is exposed to the greatest risk. If the target audience remains indifferent, his story will end there.

3. Growth, or Growth Stage. Suppose the project survived the competition. The product is in demand and is slowly capturing the market niche that its developers targeted. It is time to break even and bring some profit to investors.

4. Expansion, or Expansion Stage. The goals reflected in the business plan are finally achieved. But the development company does not stop there – it continues to promote its brainchild in new markets. Its positions are no longer threatened: it is known, its products are in stable demand, and revenues are gradually increasing.

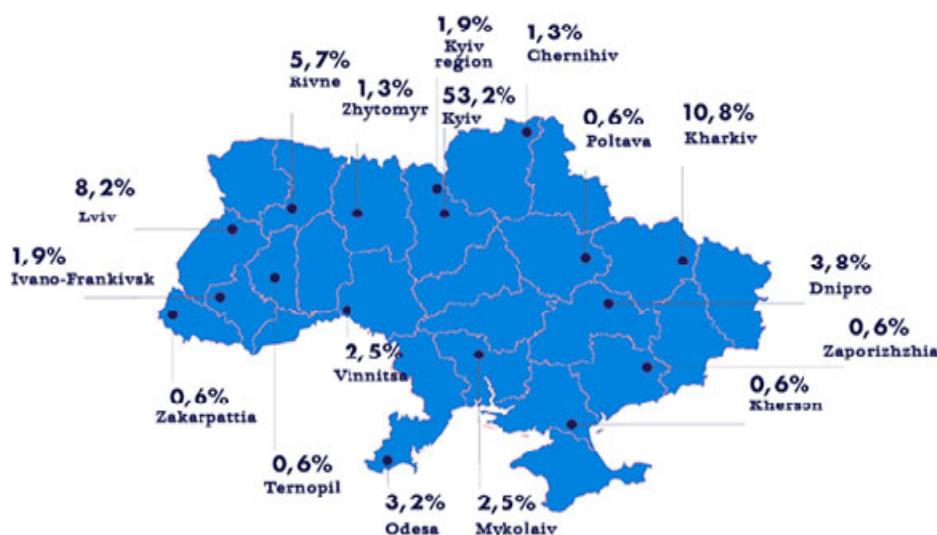
5. Exit, or Exit Stage. When the company reaches the peak of its development, the investors who financed the project give up their share in this business and sell it to the big players. This move brings them a good profit. You can say, for the sake of this moment, they invest money in a promising business. However, individual investors keep their share and use it as a source of permanent income.

Currently, the interest of businessmen and investors in the creation of startups continues to grow – despite the fact that the prospects of innovative companies are difficult to call rosy. After all, no more than 10 % of all projects receive decent development.

Over the next few years, the following areas will actively develop: financial services, environmental technologies, medical equipment, biopharmaceuticals, media projects, social networks, telecommunications, semiconductors, health, consumer goods and services.

Despite the difficult conditions, Ukrainian innovative business is developing, and the local ecosystem of startups can be an example for Western European countries. Analyzing the statistical data of 2021 regarding the rating of one hundred countries with the greatest startup potential, we can state that Ukraine took 34th place. Unfortunately, this is five positions lower than in 2020. Among Ukrainian cities, Kyiv has the highest index in the world ranking, which took 48th place. Compared to 2020, it fell by 16 positions. 53 % of startups are concentrated in the capital, 10.8 % in Kharkiv, 8 % in Lviv (Fig. 2).

Since the startup industry in Ukraine has received active development relatively recently, it is natural that the projects here are young. The study showed that 74% of startups have been on the market for no more than three years, and 87 % for less than five years ([What is the startup ecosystem of Ukraine..., 2022](#)).



**Fig. 2.** Indicators of the development of startups in certain regions of Ukraine in 2021, %

Source: based on ([What is the startup ecosystem of Ukraine..., 2022](#))

According to a survey by Forbes Ukraine, Ukrainian VCs and startups show unprecedented resilience: less than 4 % of more than 250 startups in the portfolio of the most active venture capital players have significantly reduced turnover, but none has closed. In general, the Ukrainian tech sector turned out to be the most flexible part of the Ukrainian economy during the war and may become a future driver of economic recovery after its end.

In the first five months of 2022, according to the government, the IT sector of Ukraine received approximately \$3.2 billion from exports, which is 27 % more than in the same period of 2021, and is almost half of the country's total export services ([Development of Ukrainian innovations..., 2022](#)).

Today, product startups are getting a unique chance to play a bigger role in the Ukrainian IT market, which before the war was mostly dominated by service and outsourcing companies. Defense and cyber security, construction and infrastructure, health and medicine, educational projects, agricultural sector and green technologies will be the sectors in which innovations from Ukrainian startups will be most in demand.

The war hit Ukrainian startups hard – in the annual ranking of startup ecosystems Global Startup Ecosystem 2022, Ukraine dropped 16 positions compared to last year, when it ranked 34th. This is due to the direct and indirect consequences of the war.

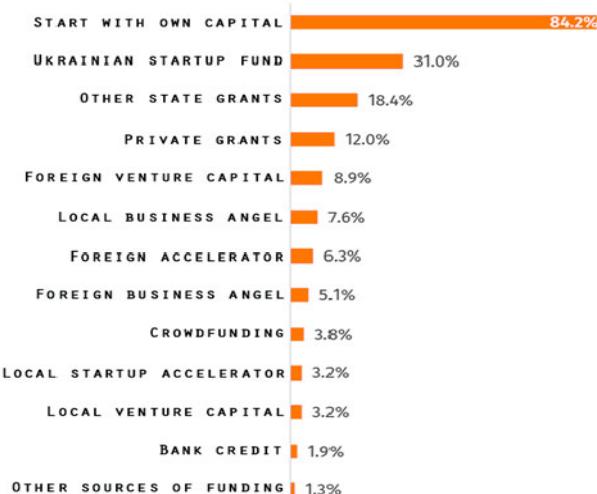
Kyiv took 93rd place, losing 45 positions. At the same time, the capital is on the 23rd place in the ranking of the 25 best cities in the world for marketing and sales, software and data.

All Ukrainian cities significantly lost the index of their startup ecosystems, falling below 700th: Odesa fell by 348 positions to 742nd, Lviv by 494 positions to 749th, Kharkiv by 342 positions to 855th. Compared to last year, when there were six Ukrainian cities in the top 1000, now Ukraine has four cities on the list. Out of a thousand, Ternopil and Dnipro were eliminated ([What is the startup ecosystem of Ukraine..., 2022](#)).

Ukrainian startups differ from each other in the number of participants. Usually, in addition to the founder,

three people work in the project, on average – six people. The largest of the surveyed startups employs 46 people.

For 84 % of startup founders, the main source of funding is their own funds, 31 % have grants from the Ukrainian State Fund for Startups (Fig. 3):



**Fig. 3.** Sources of funding for domestic startups, %

Source: based on ([What is the startup ecosystem of Ukraine..., 2022](#))

Today, Ukrainian startups are mainly looking for two ways to attract funds:

- Venture funds – they dispose of other people's funds for the purpose of investing in promising projects.
- Business angels or patrons are representatives of equity capital looking for potentially profitable objects of financing.

In fact, there are many more sources of funding. You can use your own savings, money from friends and family, and use crowdfunding tools (voluntary fund-raising – a kind of donation). You can take a loan to create a startup, but use it rationally at the later stages of development, when the prospects are clearer.

State programs also support young and promising businesses.

The main difference between business incubators and accelerators is that in an incubator the driving force is the place (infrastructure) where the entrepreneurial team will sit and create, while in the accelerator the driving force is the value that the entrepreneur's innovation can bring to the market (Ivanchenko et al., 2020).

In the incubator, everything is aimed at creating a business, even if a person came alone with an idea.

In the accelerator, the viability of the idea (the product, the service it provides) is immediately checked for viability.

A business accelerator is any organization that helps promote ideas and startups in the early stages to accelerate their growth and adequately prepare to be able to target investors with a proven business idea (Fedorov, 2021).

The main task of the so-called "business catalyst" is to achieve growth and progress during a limited period of time, which in a normal market would have a much longer duration.

Incubators mainly provide consulting services and help present a new project to an investor. Sometimes – provide future entrepreneurs with an office, finances and technical base, organize educational events. In some cases, small investments are also offered.

Incubators that focus exclusively on consulting, as a rule, do not put forward strict rules for the selection of projects. Every entrepreneur or team with an idea and a desire to implement it can become their client.

A startup's relationship with an incubator can be built on both a paid and a free basis. In the first case, for a fixed fee, the entrepreneur gets access to the training program, seminars and coaching sessions. Free participation is possible if the activities of the incubator or a specific program are financed by potential investors, who then choose projects for joint development among the participants. The size of the share in the startup that receives the accelerator varies depending on the amount of funding or non-material contribution.

As for accelerators, they work individually with a project that has passed the competition, attracting financial resources and experienced expert mentors. Their main task is to create an investment-attractive product at the working version or prototype level together with a startup within a limited period. Business accelerators, currently the most common in the field of Internet entrepreneurship, work according to a slightly different, although related, principle. This is a model of supporting businesses at an early stage, which implies intensive development of the project in the shortest possible time. Investments (so-called "pre-seed" investments), infrastructure, mentoring (consultations on technological, financial, legal, management issues, master classes and coaching from successful businessmen) are provided for a quick market entry of the project. However, the concepts of incubators and accelerators are often used interchangeably.

In the course of our research, it will be appropriate to highlight the main problems inherent in business startups, regardless of their segment, namely:

*Incorrect selection of personnel.* Lack of skills in the team is the main reason for the failure of almost every third startup. Among the errors of personnel policy, it is

also worth noting: too many employees at the early stages; a large number of managers and few – executors; multi-level hierarchy of subordination.

*Lack of active response to customer feedback.* Narrow-mindedness and disregard for user feedback are fatal flaws for most Internet startups.

*The personal benefit of the entrepreneur (project owner), not the solution of tasks set by the market and clients.* Of course, you can create a project and see what happens with it, but it is better to know the needs of the market in advance. Statistical data, discussions on thematic forums can be useful.

*Unprofessional promotion.* Most often, entrepreneurs themselves ignore subtle marketing, preferring direct advertising – this especially applies to Internet projects. Most often, their founders pay primary attention to the construction of the product, and put interest in its promotion almost to the last place. Such behavior on the market is unacceptable and will lead to loss of business in the shortest possible time.

*Irrational distribution of resources.*

*Release of a product or service at an inappropriate time.* If an entrepreneur releases a service, product or service to the market too early, before polishing all the flaws and nuances, consumers may not pay attention to it, or dismiss it as not good enough, after which it will be difficult to bring them back.

If the product is released too late, the entrepreneur may exceed the allowable level of overhead costs and simply miss that favorable moment. As Reid Hoffman (a famous American entrepreneur, venture capitalist) said, "...If you have absolutely no difficulty launching version 1.0 of your product, you've released it too late...". Inappropriate product release time has been the cause of failure in more than 20 % of businesses (Top 10 trends, technologies..., 2022).

*Lack of motivation and specific knowledge.* In any business environment, it is always worth paying attention to the relationship between corporate and personal interests. Lack of motivation as a cause of failure appears in 18.8% of cases.

*Untimely rejection of a loss decision.* If the entrepreneur made the wrong decision, for example, regarding the hiring of an employee, corrective action should be taken as soon as possible.

And the faster, the better. Similar actions take place in the market environment. As soon as it becomes clear that the product does not enjoy the expected demand in the market, you should immediately think about the necessary changes. The inertia and stubbornness of entrepreneurs, which limit growth and the ability to change the business model, is one of the main reasons for failure in almost 20 % of failure stories.

At the same time, it is important to evaluate the efficiency and profitability not only of the project (production, business) as a whole, but also of each individual product, service or service.

*Inefficient pricing.* A good price cannot always compensate for poor product quality, unfashionable design or ineffective promotion, but ineffective pricing certainly hinders the financial success of an enterprise.

*Disagreements with investors.*

*“Spraying” of monetary resources and forces.* It is important to launch one thing on the market and focus on one product. Otherwise, the company risks being left with a large number of almost finished products that do not represent value for consumers or buyers. Diverting attention from primary tasks to secondary tasks leads to major problems in product release.

*High level of competition, barriers to market entry.* Now there are fewer and fewer niches free from competition on the market. And although obsessive thoughts about competition are not healthy, ignoring it has led to the failure of 10 % of startups. It is worth analyzing the competitive environment as often as possible, using, for example, classic benchmarking tools: maps of strategic competitors. The latter shows not only the advantages and disadvantages of the company, but also of the product itself, determining the closest competitors based on this analysis.

*Dislocation of the central office.* Key aspects are proximity to consumers and the possibility of effective communication between company employees. Lack of teamwork and planning can lead to failure. Nuances of location are the cause of failure in 6 % of business cases.

A person tends to question everything – it is inherent in human nature, especially when you need to learn something new. An entrepreneur is afraid that his innovative product or simply a new project will not impress users. Therefore, many innovative entrepreneurs try to immediately demonstrate to the public the ideal product or its new version. This fear can lead you astray and cause a lot of trouble.

It is much easier to create a quality product with fewer features. It is much easier to adjust the strategy at a stage when there is not so much to rebuild. In the case of a startup, working too long on an app that the end user doesn't respond well to can lead to failure.

Of course, no two startups are alike, so there is no secret recipe for success. There is only the experience of those who have already gone through this path themselves or helped someone achieve success.

## Conclusions

Summarizing, it is worth noting that the world niche of startups is developing rapidly, but at the same time it is not busy, which gives Ukraine the opportunity to take a leading position. Our country has significant potential: highly qualified engineering resources, many cool ideas and a desire to develop and implement business innovations. As a result, the number of startups that gain recognition on the international arena and receive funding from foreign investors, sign cooperation agreements with business angels, undergo pre-acceleration and acceleration programs, raise funds on crowdfunding platforms and develop in business incubators is growing.

*Prospects for further research.* Ukraine has an active deep technological community and a strong potential for creating breakthrough innovations. In recent years, Ukrainian startups have developed steadily, rapidly in-

creasing their contribution to the economic growth of Ukraine.

Russia's illegal full-scale invasion led to social and economic upheaval and severe consequences. Most of the developments had to be stopped, reformatted or relocated.

Now it is obvious that the whole world supports Ukraine. Our state will have many investments, many Western partners, many open markets and a large number of global customers. All this will contribute to the development of the startup ecosystem. It is startups that will grow the restored Ukrainian economy after the war. Innovative projects are what will help Ukrainians not only to rebuild the country, but also to make it unbreakable, rich and modern.

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